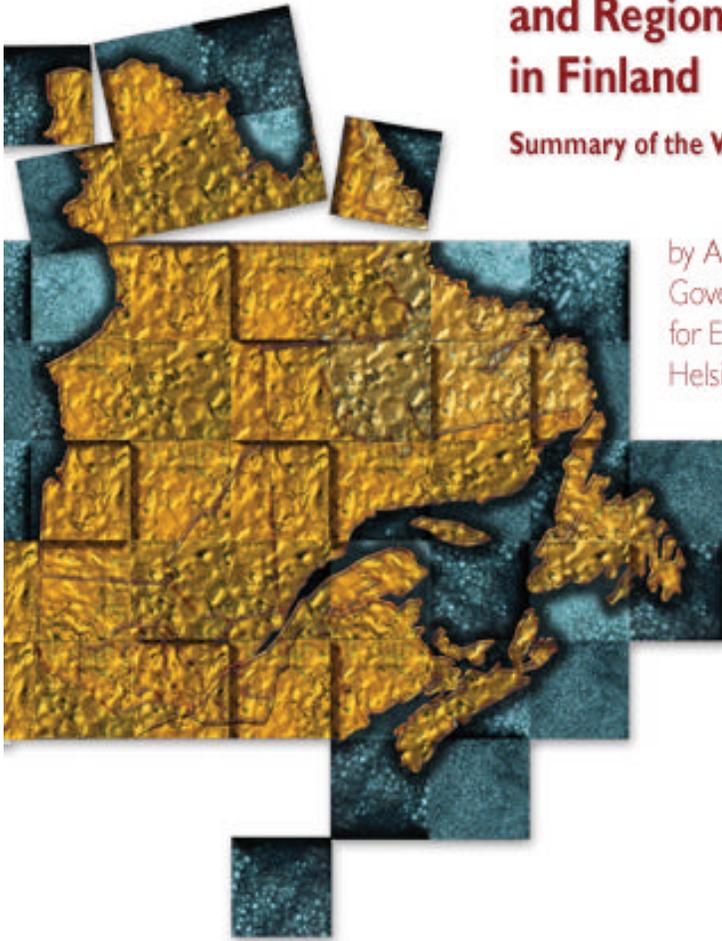


Regions in the Knowledge Economy

Regional Development and Regional Policy in Finland

Summary of the Working Group Report

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THE CANADIAN INSTITUTE FOR RESEARCH ON REGIONAL DEVELOPMENT

REGIONAL DEVELOPMENT AND REGIONAL POLICY IN FINLAND

Summary of the Working Group Report¹

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FACTORS SHAPING REGIONAL DEVELOPMENT

Economic growth and structural change have a major influence on regional development. As a result of changes in the demand for commodities, competitive standing and production methods, the focus of economic resources shifts constantly. This reallocation of resources also takes the form of movements of labour and the population in general. As technology advances and economies open up, a refocusing is going on within ever-larger regional entities. For almost all sectors and companies, the operating environment is now global.

Different regions have different potential for development because of their location, natural resources or accumulation of production inputs. The less mobility there is in labour and capital, the more regional specialisation relies on the relative advantages of one region over another. However, even if there is greater labour mobility, economic activity does not focus totally on the area that produces at the lowest cost. Other economic factors are also at work, i.e. forces restraining concentration, such as the higher cost of living, congestion and environmental problems that exist in large population centres. Areas outside urban centres also have intrinsic preconditions for success, for example in the travel business or in industries refining raw materials.

Concentration has different advantages in different sectors. In operations founded on global marketing and a high expertise level, growing economies of scale, a diversified, 'dense' labour market and the positive spillover effects of the knowledge and learning spread are important. The industrial structure shift in this direction has underlined the importance of forces speeding concentration. On the other hand, integration trends, the growing size of markets and better logistics reduce the advantages of concentration and favour specialisation. Therefore, location is not a problem.

The actual trend seems to be as just outlined. Economic activity is becoming more concentrated, both nationally and internationally. In Europe, the main concentration is in a practically uninterrupted band that runs from northern Italy to Southeast England. In the USA, the old concentrations of smokestack industry have been joined by new IT clusterings in places like California, Atlanta, and the Seattle and Boston areas.

The effect of forces slowing concentration is felt mainly in the fact that growth areas expand geographically and 'improbable' success stories are reported here and there.

IT centres may form outside the old industrial agglomerations. Likewise, they do not necessarily help to create a homogeneous major centre; rather, they set up close to each other, forming a network of nearby concentrations.

TABLE 1 - FACTORS SHAPING REGIONAL DEVELOPMENT

Forces speeding concentration	Forces restraining concentration
Market size and closeness important in many sectors	Immovable production factors make for natural locations outside urban centres
A dense, diversified labour market makes for better matching of labour supply and demand	High housing and other living costs in centres discourage immigration
The spread of knowledge and other positive spillover effects benefit companies close to each other	Congestion, crime and other negative spillover effects reduce the appeal of centres
The wide range of cultural and other services attracts young people, especially, to urban centres	A sense of local identity and appreciation for nature mean people still live outside urban centres

In Finland, there could be said to be two trends. Concentration has accelerated and could well go on doing so for quite a long time before congestion and other factors that slow down concentration start to have an effect. On the other hand, there are still attractive locations for fast-growing activities in various parts of the country, thanks to the population spread and the comprehensive infrastructure, so concentration is possible in many different parts of the country.

CONCENTRATION SPEEDED UP IN RECENT YEARS

By international standards, Finland is a sparsely populated country. Its urbanisation rate is one of the lowest in the EU. However, population concentration in the biggest urban centres has picked up in the last few years. Helsinki is one of the fastest-growing cities in the EU. At the same time, Eastern and Northern Finland are among EU major regions with the fastest net migration outflow.

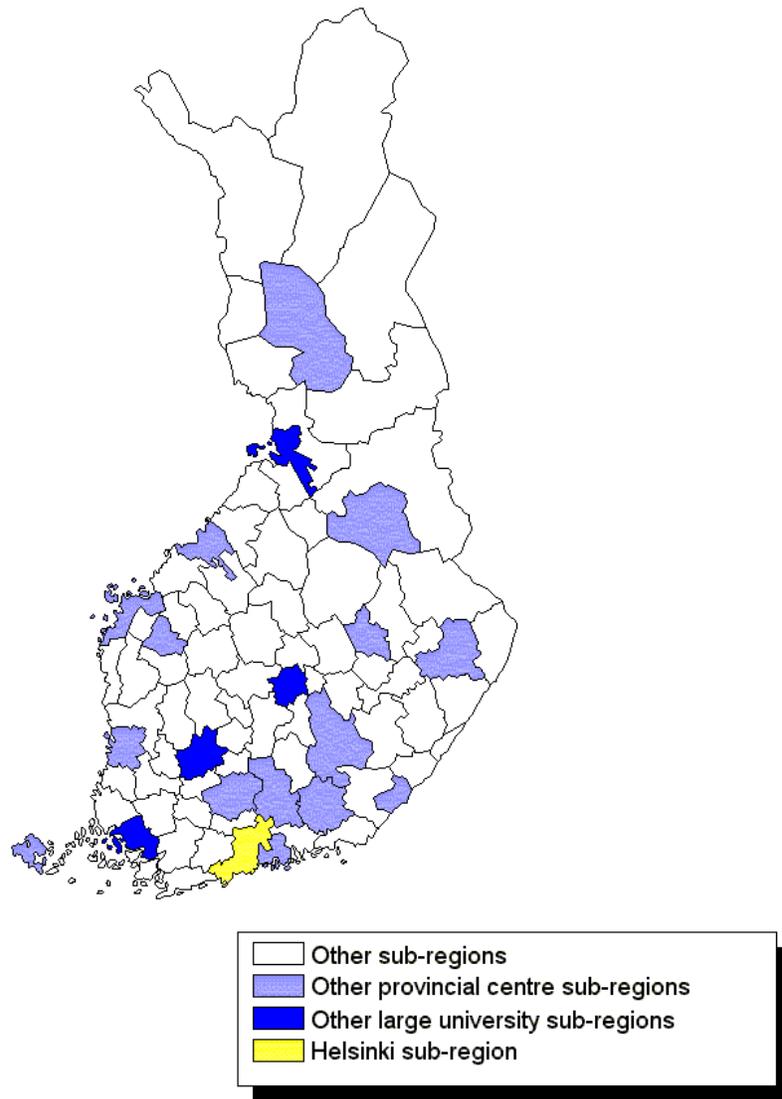


FIGURE 1 - SUB-REGIONAL GROUPING

The only urban centres that have enjoyed a clear migration gain in the last few years are the metropolitan area of Helsinki and its surroundings (Helsinki sub-region), and the Turku, Tampere, Oulu and Jyväskylä sub-regions (Other large university sub-regions). Most smaller centres' net migration inflow dwindled in the 1990's and the population has pretty well stopped growing in the provincial centres (Other provincial centre sub-regions). Indeed, most sub-regions fall into the category of areas with a net migration outflow. Among the remaining sub-regions Salo has been one of very few positive exceptions to the rule (Other sub-regions).

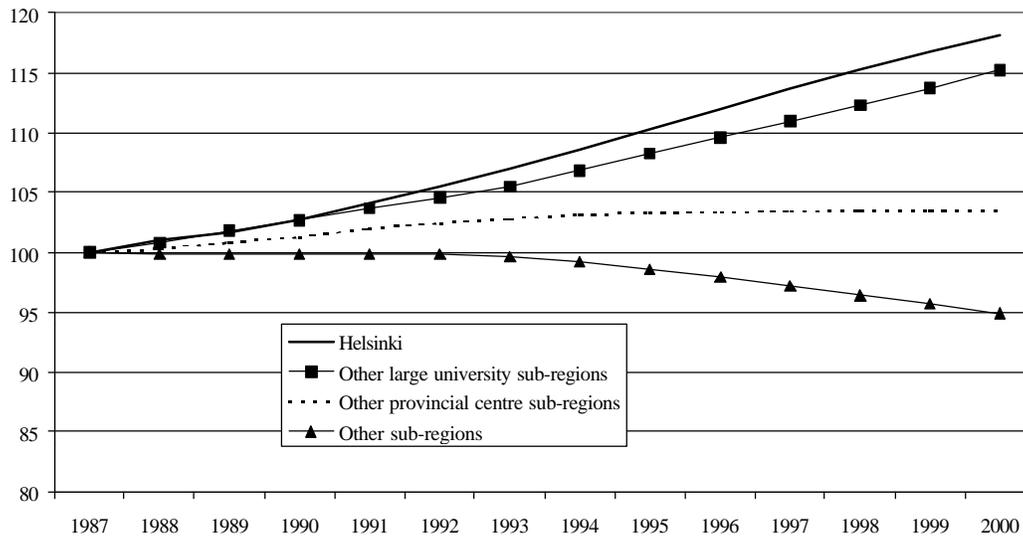


FIGURE 2 - POPULATION TRENDS BY SUB-REGIONAL GROUPING, 1987-2000 (INDEX 1987 = 100)

Migration brings young people into areas with a net migration inflow, increasing their natural growth rate. The opposite is true of areas with a net migration outflow; the birth rate falls, and the population also starts to drop by natural attrition. Eastern Finland has been a net migration outflow area for a long time now; old people account for a large proportion, so the population in many sub-regions is also declining naturally. By contrast, the population in many sub-regions in Northern Finland is still young and the birth rate so high that it compensates for some of the migration outflow.

This distorted age structure cannot last for long, however. As population growth slows down throughout the country and people grow older, interregional differences in population structure will become more acute. Also, ageing will be particularly fast in Finland over the next 20-30 years by international standards. If the concentration trend continues, the demographic structure of many areas will deteriorate so much that maintenance of basic services may be endangered.

Fast economic growth and regional divergence speeded up migration in the late 1990's, and even earlier, the pace of migration varied with economic growth. Recently however, the tendency has been towards fewer centres, and has constantly strengthened. The acceleration that took place in the mid 1990's can partly be explained by

the fact that after the Home Municipality Act took effect in 1994, movement of students started to be more accurately and rapidly reflected in statistics. However, this factor has not been decisive in the last few years. The change going on in the regional structure more recently has been caused not only by the economic upswing but also by structural changes throughout the economy.

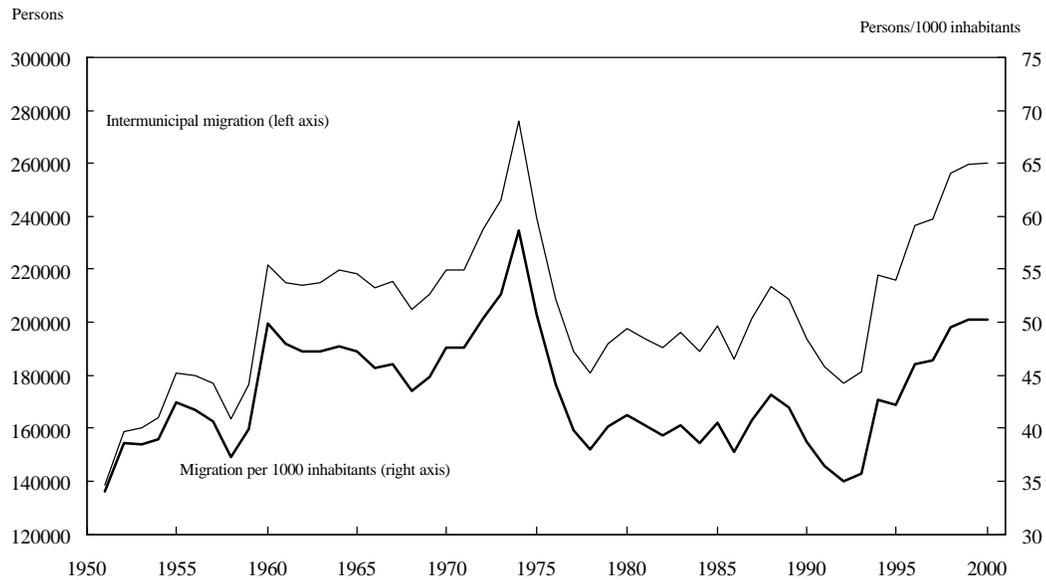
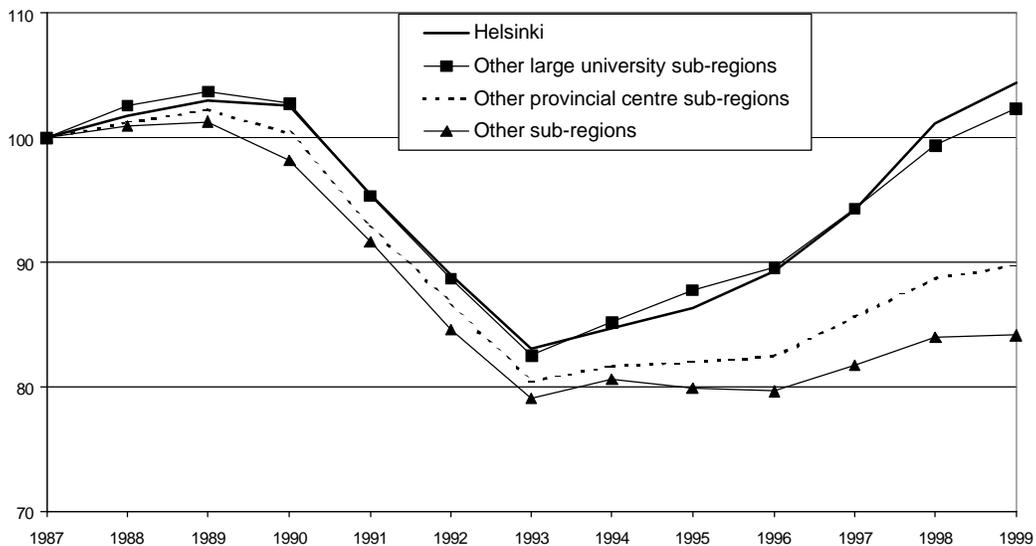


FIGURE 3 - INTERMUNICIPAL MIGRATION, 1950-2000

Inter-municipal migration is now much more common than it was during the last economic boom of the late 1980's. Then, rapid economic growth largely derived from strong domestic demand, where expanding public services played a key role. This led to steady regional growth, but proved unsustainable in an environment of free capital movements, global competition and fast technological advances. The importance of knowledge and know-how as a guarantor of economic competitiveness has grown in recent years. The Finnish economy has expanded rapidly and the country's competitiveness is considered very good internationally. Economic growth has derived from a rapid increase in exports, particularly electro-technical products and other 'new exports'. This structural change finds reflection in regional development. Though the employment rate has risen rapidly overall, regional disparities have grown.

The fastest-growing sectors and corporate services related to information technology are concentrated in just a few localities. In these places, population and income growth has boosted construction and employment in local services. Though subcontracting and similar operations have sprung up all over the country in fast-growing export sectors, this alone has been insufficient to ensure permanent growth for the locality concerned. In areas where production is dominated by traditional sectors of industry or agriculture and forestry, even a fast rise in production has not really improved employment. Growth has been achieved by raising productivity.



**FIGURE 4 - EMPLOYMENT BY SUB-REGIONAL GROUPING, 1987-1999,
(INDEX 1987) = 100**

The change in the industrial and regional structure mainly derives from the way business has adjusted to the opening up of the economy, tighter competition and technological change. This adjustment has been supported by government industrial policy. Promoting competition and raising real competitiveness have meant replacing traditional business subsidies with support for research and development. At the same time, this has shifted the main focus to the big university cities. Regional development has also been affected by the new situation in the public sector. Efforts to balance the public economy, privatise operations and produce public services more efficiently resulted in a loss of over 100,000 jobs in the public sector in 1990-1995. In

the second half of the decade, the number of public-sector jobs rose only slightly. The role played by public services in overall employment varies quite considerably from region to region, being highest in certain medium-sized administrative and service centres and in Northern Finland. As the fall in public-sector jobs came at the same time as a slow increase in other sectors, it led to many problems.

One problem faced by regional development and the economy as a whole is that even more active migration has not managed to bring the labour market into balance. Unemployment is still high in centres with a net migration inflow, like Helsinki and Oulu. Those thrown out of work in sectors in decline do not find it easy to get jobs in growth sectors, for these mostly find their new employees among new graduates and movers into the area. In areas with a net migration outflow unemployment may even rise, because those moving out are young people with jobs to go to, or students. Unemployment is lowest in certain West Coast municipalities and the Åland Islands, in small growth centres like Salo, and in the surroundings of large towns where young people with jobs there tend to live.

CENTRAL GOVERNMENT BALANCES OUT REGIONAL WELFARE DISPARITIES

Like Sweden and Norway, Finland has always been a country where regional policy plays an important role. For instance, regional policy largely used to dictate how support for businesses was allocated. The construction of transport systems and other infrastructure has made a key contribution to regional development, as have the location decisions of State-owned companies and their investments, and the foundation of new universities.

Income differentials between Finnish households are the lowest in the OECD. This fact is also reflected in regional disparities. The welfare gap between the regions shrank from the 1960's well into the 1980's. Thereafter, the narrowing process seems to have stopped, though differences did not start to grow again in the recession in the early 1990's. As economic growth picked up in the mid 1990's, however, regional disparities seem to have increased. There are no figures available on the last few years, but trends throughout the country indicate that differences between population groups have grown. This is probably true of regional differences, too.

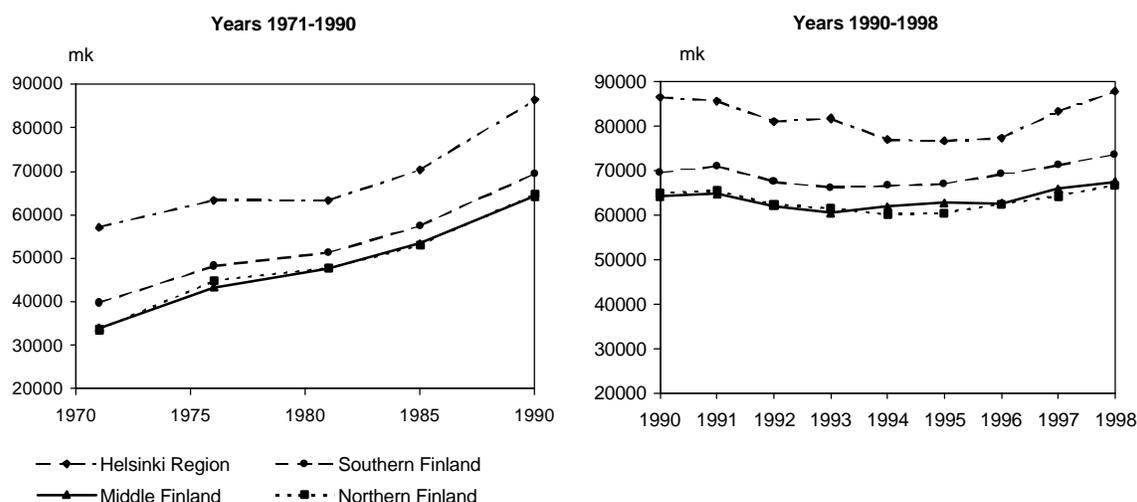


FIGURE 5 - REAL DISPOSABLE INCOME PER CAPITA ACROSS REGIONS

The trend in regional welfare disparities illustrates the effects of what could be called general government policy. General social and fiscal policy aims to balance out consumption potential among population groups. Indirectly, this also balances out regional differences. An important role has been played by the system of central government subsidies to municipalities. This has ensured the availability of basic services throughout the country. In many places, these services are also an important employer.

Though the public economy has been restructured and cuts in government jobs and changes in municipality funding have increased the problems faced by individual local authorities, general government policy is still effectively balancing out regional differences. Measured by regional output per capita, the richer areas contribute a larger proportion of central government income and account for less expenditure than the areas with a lower income level. There have not been any major changes in these ratios, either, even though the overall level of revenues and expenditure has fluctuated.

The effect of regional policy proper, i.e. the regional development budget and related programmes, on regional development is hard to estimate. In the era of the closed economy and regulated financial markets, though, it was possible to exert considerable influence on the regional allocation of investments, and regional policy directly

supported the creation of jobs in developing regions. Some ten to fifteen years ago, however, when the money market was deregulated and the Finnish economy opened up, the environment in which the policy operated changed dramatically. EU membership also brought a profound change in regional policy principles.

Today, the premises for what is called 'programme-based' regional policy are very different from those for the old zone-based policy. They strive to take the specific problems of different types of area into account as well as their general level of development. Solutions can also be sought to communities' internal problems using funding from 'horizontal programmes'. Instead of talking of regional policy, people often now speak of rural and urban policy.

EU membership has brought both funding from the Structural Funds and new approaches into the regional development arena. At the same time, the importance of purely national measures has decreased. Between 1995 and 1999, a total of some FIM 18 billion in public money was made available through the EU Structural Funds and related national funding, that is, an average of FIM 3.6 billion a year. The public aid that will be available in 2000-2006 through current Structural Fund programmes is put at altogether FIM 27.5 billion, or an annual average of FIM 3.9 billion. Most of this money is channelled to the regions through EU Structural Fund programmes. As a result, the bulk of national funding also goes into these programmes. Indeed, the main focus of action has shifted to projects subject to official discretion.

In theory, a shift of this kind makes for better evaluation of the effects of programmes. In practice, however, this is not the case. It is impossible to make precise estimates of the Objective programmes' impact from the routine assessments made of them. In fact, it is important for some information-gathering system to be set up for programme projects, which would permit comprehensive evaluation of their impact.

HOW REGIONAL POLICY CAN HAVE AN IMPACT

Where industry chooses to locate is essential for regional development. The basic trend of structural change in industry looks likely to continue, i.e. sectors related to information and communication technology, or ICT, or processes calling for a high level of expertise in general, are growing fastest. Population and income rises will

therefore be fastest in the places where such industry is located - the biggest university cities and various other centres. If the migration trend dominant in 1999 were to continue up to 2010, the population of the Helsinki district would rise by 160,000. The Tampere, Turku, Oulu and Jyväskylä districts would also enjoy a substantial increase in population. By contrast, the population of the districts with the highest net migration outflow would fall by 20-30 per cent.

Such a heavy concentration of population would cause problems in both the expanding and the declining areas. In the former, the housing market would remain tight and the community fabric could well disintegrate still further. Service provision would tend to lag behind the demand. In areas with a net migration outflow, housing and other building stock would lie unused, and it would be more difficult to meet the service needs of the remaining population. As young people and the well trained move away, employment opportunities for those left behind would also deteriorate.

How far can regional development be influenced, then? The basic principle is to strive to affect the factors that dictate where industry and households locate themselves. The factors influencing corporate decisions stem from the individual company's operating sector, while people choose where to live according to the stage they have reached in their lives. For instance, educational opportunities in an area are important for high-tech companies and influence especially young people's choices.

TABLE 2 - FACTORS INFLUENCING CHOICE OF LOCATION (COMPANIES) AND PLACE TO LIVE (FAMILIES)

Company requirements of location	Needs of family with children
<ul style="list-style-type: none"> - adequate, expanding population base - trained and skilled workforce - good connections (transport and telecom) - predictable land policy - pro-business attitudes - co-operative climate 	<ul style="list-style-type: none"> - a job for both parents - quality of day-care, health and school services - housing standards and surroundings - municipal tax rate - recreational facilities - connections with other places

Finland can currently offer not only its present growth centres but also a number of largish centres in various parts of the country that meet the criteria of expanding

companies and skilled employees. Indeed, regional policy should make one of its aims the formation of a nation-wide growth area network made of growth centres of various types and sizes. A growth area network offering more options would reduce the migration pressure on the small number of present growth centres and would avert the internal problems caused by excessively heavy concentrations. On the other hand, it would also support full use of the community structure and provide people living in surrounding areas with new job opportunities. However, the authorities should not exclusively name the growth centres because this would give a negative stigma to other areas.

FOCUS ON THE NEW IN REGIONAL DEVELOPMENT

Goal setting in regional policy must take account of changes in the operating environment. In many sectors, companies take the whole world into account in their location plans. It is then important for Finland to be a competitive option. Indeed, regional policy as a whole should give more priority to creating something new than to merely tempting existing companies to move from one area to another.

Generally speaking, a long period of research and development is needed before industry and jobs in a new growth sector reach a level that has a real impact on the regional structure. For instance, it took some twenty years of energetic investment in training, research, etc. before the electrotechnical industry became the engine of growth in the Oulu area (Appendix). There are potential growth areas all over the country, but it is impossible to predict their chance of success. In a few cases, self-supporting growth gets underway quite quickly if a new implant can exploit the special skills of the area and unify its strengths. This was the case in Jyväskylä, for instance.

Regions - whether we now mean municipalities, sub-regions or provinces - today carry more responsibility for their own development. Even the effectiveness of regional development programmes depends largely on the receptiveness of the regions concerned. It is therefore important for all the players to pull in the same direction - central government authorities, local government, educational institutions and companies. The very minimum is that these various parties' views of the main lines to be followed by industrial policy in the area should be similar. Finland can offer good and

bad examples of regional development projects, and there is no ready pattern to follow, because each case is unique and depends on considerations such as the existing structure of business and industry, the institutions involved, and co-operation between the players.

Finland's different regions, especially the provinces, have developed specialisations over a long period of time. Their industrial structures and service amenities thus vary. One important starting point for regional development that should be noted is that the fastest results may well be achieved through action related to existing industry and relying on existing institutions, rather than by setting up completely new structures.

CENTRAL GOVERNMENT STILL RESPONSIBLE FOR EVENING OUT REGIONAL DISPARITIES

General government policy still plays a crucial role in minimising regional welfare differences. It also provides tools for developing individual areas. Though the size of the public purse is limited because of international tax competition, the ageing population and the need to reduce government debt, the welfare state is still alive and well in Finland. In seeking to balance out income and consumption disparities between different population groups, welfare policy also evens out regional differences. Taxation will probably come to have less impact in evening out income distribution. It is likely to be restructured so as to reduce the importance of progressive national income taxation. Balancing out welfare differences will then rely more on trends in public services and income transfers. From the regional point of view, how public services develop is particularly important. Their direct job-creation impact is great, and they also influence an area's attractiveness as an industrial location and a place to live.

The municipalities' ability to finance services varies, and encouraging business and industry is crucial in strengthening their financial base. Other factors that play an important part in evening out unreasonable intermunicipal differences are the central government subsidy system and equalisation of tax revenues. When the system of municipal funding is developed, the equal services principle should be combined with incentive related to the local taxation. The funding arrangement should guaran-

tee basic services for people throughout the country and encourage the municipalities to support business and industry and increase their tax base. Here success depends on how the various taxes are taken into account in the tax revenue equalisation system, and how this equalisation is carried out. Jukka Pekkarinen is examining these issues in a current study.

Another problem relates to general labour market trends, and is more difficult to influence. Getting qualified personnel for schools and health centres is becoming increasingly difficult as present staff retires and other sectors prove more attractive. Ensuring enough staff will mean not only providing correctly scaled education and training, but also making the public sector sufficiently attractive as an employer.

Local and regional problems in ensuring sufficient services should be solved through regional cooperation and voluntary combination of municipalities. This may not always be enough, however, so there must be a willingness to try out new approaches. In so far as they relate, say, to financial benefits for people ready to work in remote areas, this has links with the central government subsidy system for local authorities.

The establishment of new universities has had a positive effect on local development. Finland is not likely to need any further universities, as upcoming age groups are barely large enough to fill even the present places in higher education. Instead, action should focus on improving the operating conditions of the existing universities, and developing the polytechnics. Special attention should be given to ensuring a workable division of labour between the universities, their local units and the polytechnics. Opening specialised upper secondary schools and vocational schools can also further regional development.

Central and local government is responsible for maintaining a comprehensive transport network. The important thing in railway system development is to ensure fast rail connections to the main lines. Smooth traffic flow on the main roads must be safeguarded. Minor roads should be kept in the condition that meets the demand. Airport capacity should be increased as traffic grows, and not only in the biggest centres.

In developing telecommunications, it is important to ensure equality in the provision of reasonably priced broadband-level connections to every municipality. Various dif-

ferent techniques can be used to build the network, depending on the transmission need. Central government bears most of the responsibility for developing and maintaining the infrastructure, though it can employ private-sector capital. EU aid is available for transboundary projects and programmes in nearby areas, especially infrastructure projects in Russia, which are important for the development of Northern and Eastern Finland. As the EU enlarges, transport and other infrastructure arrangements in the new member countries could be crucial for Finland's links with the Continent.

Regional development can also be influenced through general economic policy measures. Ensuring the conditions for fast, stable growth by developing taxation, providing other public incentives for enterprise and encouraging people to work is particularly important.

Action to create jobs and promote labour market adjustment is also important from the regional point of view. It is not easy to permeate every high unemployment area with subsidised employment schemes and training programmes. More attention should be paid to ensuring the local suitability of the various measures, which could focus, for instance, on buttressing local services as well as creating jobs.

By promoting vocational mobility we can reduce regional mobility, and housing policy can be used to promote migration that furthers labour market adjustment. Regional pay adjustments help to even out regional development, and could be encouraged if performance-based pay components were increased.

MORE REGIONAL POLICY TOOLS, OR MORE RESOURCES?

For the next few years, at least, projects under EU Objective programmes will form the main framework of regional development, and funding has been agreed up to 2006. These programmes also tie up national funding, and this must be taken into account in assessing the overall regional policy picture. The regional administration plays a key role in implementing programme policy, and the way projects are linked to it underlines the responsibility carried by this government level in development policy. On the other hand, local government also bears concrete responsibility for public and corporate services locally. As companies and educational institutions also

need to be drawn into regional development programmes and projects, there is a risk of project fragmentation and top-heavy administration.

When projects are chosen and implemented, special care should be given to ensuring that they support both each other and the overall development of the region. EU enlargement will probably make it more difficult for Finland and the other present Member States to get regional aid on the current scale beyond 2006. Finland will then have to underline its special problems more effectively. After all, it differs from both the present and future member countries in its scattered settlement, harsh climate and peripheral location. It is important to stress these factors when the EU's regional funding programme is being drawn up, because other countries tend to know little about conditions in Finland.

However, effective national action is needed as well as EU Objective programmes, and this should focus specifically on further building up skills. The Centre of Expertise programme is particularly useful here, and should be ensured sufficient funding. In the least developed areas, use of research and product development aid can also be increased by, for instance, expanding the 'technology adviser' scheme. Even so, 'old' forms of support based on market demand will still be needed, such as Finnvera loans and guarantees and government investment and transport grants.

The working group has not taken a stance on individual measures or scales of action, but has restricted itself to general principles. As well as by regional development aid proper, regional development can be influenced by public investment, education and training policy, horizontal business grants and employment policy. If these are used properly, they back up the impact of regional policy measures proper.

The regional development support system must be long-term. Structural Fund programme resources have been agreed up to 2006 and national programmes should also have an agreed life of longer than one year at a time. The funding framework could be fixed for a few years, though there should be an annual reassessment of whether the funding is adequate, depending on the economic situation. The demand for 'market-driven' aid programmes depends on the general economic situation and the availability of other funding. Introducing steeper gradations within the permitted aid limits could perhaps increase the effectiveness of support.

The working group also recommends that the possibility of tax subsidies should be investigated, though there are many problems involved. To be at all effective, subsidies would have to be quite considerable, so they could only be targeted at a very limited area or population group. It could be difficult to work out a fair system. The most argued-for approaches relate to reductions in employer contributions for key personnel using regional aid, which is designed to increase competence capital in poorly developed regions, or income tax relief for such employees. Whether such measures would be workable should be investigated.

The regional development aid system must be transparent, simple and consistent. It must also meet the EU requirements for aid areas and competition considerations. Transparency means, for instance, that it must be easy to estimate the effect of aid on costs. Simplicity, in turn, means that applying for and granting support should not involve any complicated administrative processes.

CONCLUSIONS

1. The concentration trend in the regional structure is all part of making the economy more transparent, cohesive and technically advanced. Industrial and economic policies have speeded up Finland's adjustment to the new international environment, and part of the process has been this concentration tendency.
2. Though concentration of industry and population has clear benefits in terms of efficiency, it also causes problems. Bottlenecks occur in growth areas, which find reflection in welfare deficiencies and inflationary pressures, while at the same time investments in declining area infrastructures are not fully utilised. Over the long term, it becomes increasingly difficult to keep regional welfare disparities reasonable.
3. Fast, stable economic development is a basic precondition if regional development problems are to be alleviated. It is not possible, or justified, to use regional policy measures in attempts to prevent changes in the regional structure caused by economic restructuring. However, regional policy can aim to give regional development a better balance.

4. The realistic goal is to strengthen regional growth potential by ensuring that the different parts of the country remain viable even if population figures fall in some places. This means developing a comprehensive growth area network made up of centres of different sizes and types. Of course, other areas should not be prevented from developing; on the contrary, all initiative must be encouraged.
5. In Finland, differences in regional welfare and between population groups are small. General welfare policy plays an important role here. In future, too, ensuring the availability of basic services will provide the conditions for keeping welfare differences under control. The plans for developing central government subsidy and tax revenue equalisation systems for the local authorities are also important in terms of regional development. New administrative and logistical solutions will also be needed to guarantee that services are accessible.
6. Consolidating skills, e.g. through the Centre of Expertise programme, is an important element in supporting the development of the least successful regions. Particular attention should be paid to ensuring that science universities, polytechnics and vocational institutes get enough funds and that the division of labour between them is sensible.
7. In terms of the competitiveness of areas suffering from development problems, good transport and telecommunications systems are essential. This is a government responsibility, though there must be flexibility in the way telecommunications are organised in the interests of efficiency.
8. The main tool of regional policy is a regional development programme, backed by regional Structural Fund programmes. The most energetic measures focus on the areas with the worst development problems (Objective 1 areas). The content and resources of these programmes are mostly fixed for the next few years. It is important to implement them efficiently, to monitor them well and to prepare now for follow-up when the present programme period is over.
9. The responsibility of regional government for regional development is accentuated when central government measures are integrated into regional programmes. It can be increased by delegating decision-making power from central government to the regional level and by relaxing centralised control of norms and finances.

10. Regional problems occur in areas other than those covered by Structural Fund programmes. In growing centres, the aim must be to maintain the conditions for growth while also preventing in advance the social and other problems typical of big cities. Rural areas, again, have their own problems, particularly the declining service network and distortion of the age structure. Co-ordinated national urban and rural policies are therefore needed.
11. Compared with other EU Member States, Finland spends rather little on regional and other industrial subsidies. The only exception is support for R&D. The scale and structure of business aid can in the main be considered justified in terms of both growth policy and the public economy. However, the imbalance in regional development demands a more effective regional policy. Because mere re-focusing of present measures is unlikely to have sufficient effect, some additional resources will also be needed. In particular, more effective use of research and development aid should be encouraged in the least developed regions. Ways of using new instruments, especially various tax incentives, should also be investigated.
12. A policy of regional development supports economic growth. It helps promote the establishment of new enterprises, raises the employment rate and improves use of the existing capital stock. Development measures should be long-term, consistent and transparent.

APPENDIX - OULU'S EFFECT ON NORTHERN FINLAND

Oulu's economic growth has been rapid since the mid 1990's. It has been powered primarily by the new technology enterprises whose product development and labour supply have gained support from the University of Oulu, the Technical Research Centre of Finland (VTT), the polytechnics and, with the advance of medical technologies, Oulu University Central Hospital.

The City of Oulu has also exerted crucial influence in the creation of a business-friendly environment. The basic preconditions for Oulu's development were created in 1958, with the opening of the University. An important role was played by the University's Electrical Engineering Department, which concentrated heavily on research into electronics. The VTT Electronics Laboratory set up in Oulu in 1974 has been a key generator of research information and a partnership organisation for businesses exploiting the new research. The establishment of a Science Park in 1982 provided an excellent environment for cooperation between businesses and public institutions. The crucial company for Oulu's development is Nokia, whose research and development on electronics and wireless communications from the 1960's onwards has led to global commercial success.

Oulu's growing attraction is clearly reflected in the migration figures. Up to the early 1990's, Oulu's net migration inflow was only a couple of hundred people a year. By the end of the decade, it was ten times that. In employment terms, the success is the most apparent in the local labour market area. The rest of province has not benefited to the same extent (Figure A1).

Because of its businesses' huge need for labour, Oulu has recently been trying to recruit information technology students for local companies in their very first year. People with skills are recruited very early. Oulu companies' keen recruitment campaigns and high salaries have also led to a shortage of teaching staff at the university and other educational institutes.

Technological training is also given at the various polytechnics in other parts of Northern Finland. Distance teaching by Oulu University is also used. Oulu does not employ all those graduating from the area, though. About half of all polytechnic graduates take jobs locally. However, the smaller towns' chance of getting skilled

people to stay is reduced by the fact that it is often impossible for both spouses to find jobs nearby.

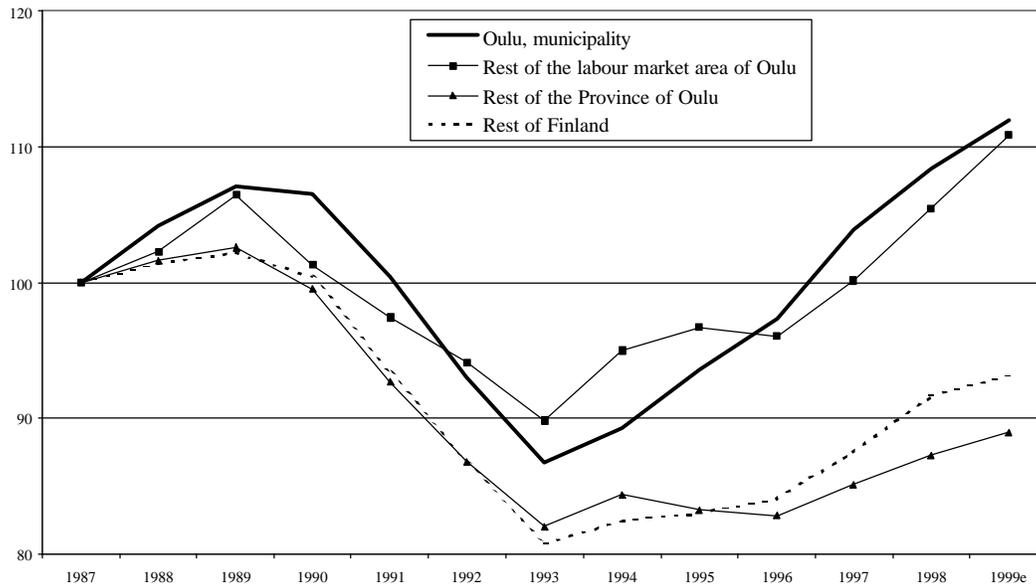


FIGURE A 1 - EMPLOYMENT IN OULU AND ELSEWHERE, 1987 = 100

Cooperation between Oulu and its surroundings is not restricted to education and training, though. A number of specialised expertise centres have recently been set up in Northern Finland, and mutual cooperation is being promoted through a project called Multipolis, which covers over 20 technology centres in northern Finland and Sweden. The aim is to encourage debate, co-ordinated specialisation and the identification of barriers to development.

The main strengths of the Multipolis network are that local educational institutions generate local labour, it concentrates on certain areas of expertise, and there is excellent cooperation between government, schools and enterprises. In the case of some centres, funding opportunities are greatly improved by their location in an EU Objective 1 aid area.

Weaknesses include the shortage of skilled labour and permanent university-level teaching, employee movement to urban centres, and their remoteness from markets. Some centres of expertise also have an excessively narrow business base.

The Oulu region centre of expertise programme is implementing the projects covered by the strategy plan for Northern Finland drafted in spring 1998. This plan was drawn up jointly by the institutes of higher education, companies and government representatives. The main target is to ensure maximum utilisation of the intellectual resources of the whole of Northern Finland to benefit the region's economy and employment.